

TEXAS EMPLOYEES
GROUP BENEFITS PROGRAM

The federal Affordable Care Act requires insurers of large plans to spend 85 cents of every health insurance dollar on health care costs. Although this part of the law does not apply to the GBP, HealthSelectSM of Texas far exceeds this standard, with about 97 cents of every HealthSelect dollar going toward health care costs.

JUST A FEW OF OUR ACCOMPLISHMENTS:



Implemented a new HealthSelect third-party administrator (TPA) contract with UnitedHealthcare on September 1, 2012, saving the State \$6.5 million in administrative fees the first year while maintaining quality care. The contract is on track to exceed projected savings of \$25 million through FY16 (compared to other administrative proposals).



Worked with the TPA to **increase its network to 64,000 doctors statewide** and negotiate better reimbursement rates, which saved the health care plan \$15 million.



Enrolled about half of ERS Medicare-eligible members and dependents in the HealthSelect Medicare Advantage plan, for \$20 million in dependent premium contribution savings for our Medicare-eligible members.



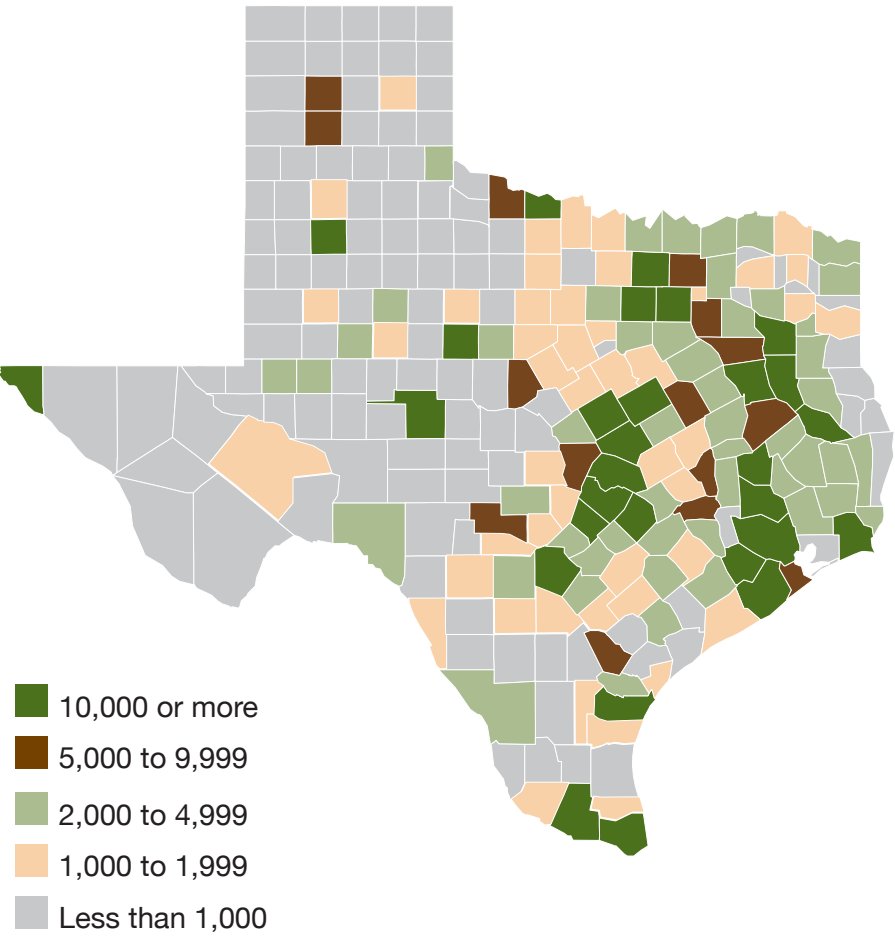
Promoted wellness by requiring all GBP health plan participants and their dependents 18 years of age and older certify whether or not they use tobacco. More than 461,329 participants certified during Annual Enrollment for Plan Year 2013, collecting \$9.7 million in tobacco premium contributions from more than 27,000 GBP participants. ERS projects an additional \$14.6 million in FY14 from 41,000 GBP participants who use tobacco or failed to certify.

Implemented new Medicare-primary retiree drug coverage as of January 1, 2013, which is expected to save \$27 million for calendar year 2013.



Implemented a new evidence of insurability (EOI) online application process in ERS OnLine for members electing life or disability insurance benefits, which makes the experience **faster and more accurate**.

NUMBER OF ERS MEMBERS AND ANNUITANTS
BY COUNTY, FISCAL YEAR 2013



Every year ERS pays \$1.8 billion in annuities to retirees, 96% of whom stay in Texas.



30% of ERS Trust investments are in Texas-based companies or companies with 200 or more Texas employees.



AT A
GLANCE
Fiscal Year 2013



RETIREMENT

ERS Plans provide retirement benefits for state employees and elected officials (ERS fund), law enforcement and custodial officers (LECOSRF), and judges (JRS 1 and JRS 2).

- **\$24.0 billion trust fund**
- **10.07%, or 9.87% net of fees**, one-year rate-of-return on investments
- **134,227 active members** (ERS - 133,669; LECOSRF - 37,415*; JRS 1 - 13; JRS 2 - 545)
- **92,042 retirees** (ERS - 91,367; LECOSRF - 9,089*; JRS 1 - 421; JRS 2 - 254)
- **\$1.8 billion in retirement payments annually** (ERS only)
- **77.4% ERS Trust funded ratio**

* ERS total includes LECOSRF members.

INSURANCE COVERAGE

The Texas Employees Group Benefits Program (GBP) provides coverage for health, life, dental, Voluntary Accidental Death & Dismemberment (AD&D), and the Texas Income Protection Plan (TIPPSM, short-term and long-term disability insurance).

- **534,312 participants** (226,181 employees, 100,054 retirees, 206,403 dependents, and 1,674 COBRA)
- **The health plan paid more than \$2.5 billion* in health care claims.**
- **Plan participants paid \$555 million in out-of-pocket costs, such as copays and coinsurance.**

TEXA\$AVER PROGRAM

Tax-deferred supplemental 401(k) / 457 retirement program

\$2.1 BILLION IN ASSETS			
• \$1.59 billion in 401(k)		• \$494.7 million in 457	
• 135,237 401(k) accounts		• 24,689 457 accounts	

TEXTFLEX

Flexible spending accounts program, authorized and regulated by the Internal Revenue Service (IRS) under Section 125, for health and dependent care expenses.

- **\$91.9 million contributed to TexFlex accounts by state employees**
- **50,689 accounts**
- **\$500.9 million in insurance premiums redirected**
- **\$113.5 million* tax savings for participants** (FICA and FIT)
- **\$38.3 million* tax savings for State** (FICA)

*estimated

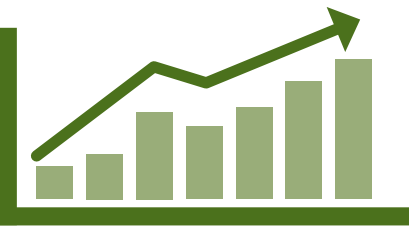
INVESTMENTS

ERS manages a \$24.0 billion retirement trust on behalf of state employees and retirees who are the beneficiaries of the trust. Investment returns continue to be the largest funding component of retirement benefits, accounting for 65% of the value of the ERS Trust.

A 10.07% gross investment return for FY13 helped the ERS Retirement Trust moderate some of the losses incurred in recent years. ERS also continues to surpass its long-term investment goal, with a 30-year rate-of-return of 8.5%.

Day-to-day investment decisions are managed by ERS’ professional investment staff within the policies, procedures, and risk management guidelines set by the ERS Board of Trustees. The ERS Board, following a recommendation by the Investment Advisory Committee, adopted a new asset allocation strategy in February 2013 to increase investment diversity while maintaining an acceptable level of risk.

ERS Retirement Trust Asset Allocation		
Asset Class	August 2013	Long-term Target
Global Equity	53.6%	45.0%
Fixed Income	29.5%	25.0%
Global Real Estate	6.3%	10.0%
Private Equity	6.6%	10.0%
Hedge Funds	2.5%	5.0%
Infrastructure	0.7%	4.0%
Cash & Equivalents	0.8%	1.0%
TOTAL	100.00%	100.00%
Internally Managed 70%		Externally Advised 30%



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RETIREMENT

The state retirement plans are designed to provide a reasonable and stable source of income for state employees during retirement at a low cost to the State. The typical state agency retiree worked for the State for 22 years, is 68 years old, and receives \$18,900 a year in ERS retirement benefits.

The 83rd Texas Legislature increased contributions and approved changes to retirement eligibility and the annuity calculation. New eligibility rules were established for employees hired on or after September 1, 2013. Annuities for employees hired after September 1, 2013 will be based on their highest 60 months of earnings, and the minimum retirement age with no age-based annuity reductions was increased to 62. The interest rate paid on account balances upon withdrawal decreased from 5% to 2% starting January 1, 2014.

	Employees hired before 9/1/2009	Employees hired 9/1/2009 – 8/31/2013	Employees hired on/after 9/1/2013
Minimum retirement age with GBP benefits	ERS 65 with ten years service credit, or Rule of 80	ERS 65 with 10 years service credit, or Rule of 80	ERS 65 with 10 years service credit, or Rule of 80
	LECOSRF 50 with 20 years or Rule of 80	LECOSRF 55 with 20 years or Rule of 80	LECOSRF 57 with 20 years or Rule of 80
Annuity reduction for “early” retirement	ERS No reduction	ERS 5% per year under 60, capped at 25%	ERS 5% per year under 62, no cap
	LECOSRF Actuarially reduced before age 50 and no Rule of 80	LECOSRF Age reduction of 5% for each year before 55 capped at 25%	LECOSRF Actuarially reduced before age 50 and no Rule of 80, plus 5% for each year before 57 with no cap
Final average salary based on:	36 months	48 months	60 months
Multiplier	ERS 2.3%	ERS 2.3%	ERS 2.3%
	LECOSRF 2.8% with 20 years	LECOSRF 2.8% with 20 years	LECOSRF 2.8% with 20 years
Unused leave can count toward eligibility?	Yes	No	No
Unused leave can help increase annuity?	Yes	Yes	Yes*

*Unused annual leave can only increase the annuity if it’s not taken as a lump sum.

Both the State and state employees contribute a portion of their monthly salary to the retirement fund. Contributions are enough to pay the full cost of current benefits, but not enough to close a funding gap created when benefits were enhanced without adequate contributions, followed by significant investment losses in 2002 and 2008.The State’s contribution toward its employees’ retirement during the 2013-2014 biennium accounts for less than 0.5% of the State’s total two-year budget.